

Message Text

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C O N F I D E N T I A L CARACAS 1695

FROM AMBASSADOR

E.O. 11652: GDS

TAGS: ENRG VE

SUBJECT: BILATERAL ENERGY TALKS: SCHLESINGER-HERNANDEZ MEETING

REF: (A) CARACAS 1484 (B) STATE 36371 (C) CARACAS 15

1. THE UPCOMING MARCH 6 MEETING BETWEEN SECRETARY SCHLESINGER AND VENEZUELAN MINISTER OF MINES HERNANDEZ IS SEEN AS A MAJOR MATTER BY THE GOV, TO WHOM US-UVENEZUELAN RELATIONS IN THE PETROLEUM FIELD ARE A VIRTUAL LIFE AND DEATH MATTER. IN MY VIEW, THE US ALSO HAS MAJOR ADVANTAGES TO GAIN FROM THIS MEETING AND AN ON-GOING ENERGY DIALOGUE, AND, THEREFORE, FROM OUR PERSPECTIVE AS WELL THIS IS A MAJOR AND SIGNIFICANT MEETING. IT MARKS AT LONG LAST THE FULFILLMENT OF PRESIDENT CARTER'S PROPOSAL MADE TO PRESIDENT PEREZ LAST JUNE THAT THE RESPECTIVE ENERGY MINISTERS ENGAGE IN SUCH DIALOGUE, AND APART FROM ITS SUBSTANTIVE MERITS REGARDING OIL ITSELF, IT IS A BASIC ELEMENT IN THE TOTAL RELATIONSHIP WE ARE SEEKING TO CONSTRUCT. THIS CABLE OUTLINES WHAT THE VENEZUELANANS EXPECT OUT OF THE MEETING AND WHAT WE WANT OUT OF THE TALKS.

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2. THE GOV PERSPECTIVE: FOR VENEZUELA, THE MARKETING OF OIL IS THEIR LIFELINE; THE UNITED STATES IS ITS MAJOR MARKET; IT CAN NEITHER FIND ADEQUATE SUBSTITUTE MARKETS NOR DOES IT WANT TO. SECONDLY, THE GOV KNOWS THAT THE US IS THE MAJOR SOURCE OF TECHNOLOGY, AND THAT EVENTUALLY SOME WORKING RELATIONSHIP WITH THE US AND THE COMPANIES WILL BE NECESSARY TO REALIZE THE TREMENDOUS

HYDROCARBON POTENTIAL THAT STILL EXISTS IN THE COUNTRY. FOR THE GOV, THEREFORE, IT IS LITERALLY ESSENTIAL TO HAVE A CLOSE AND ON-GOING RELATIONSHIP WITH THE US IN WHICH MUTUAL PROBLEMS CAN BE ANTICIPATED AND RECONCILED; ITS ECONOMIC HEALTH LITERALLY DEPENDS ON THAT.

3. THE GOV BELIEVES THAT SUCH A RELATIONSHIP CANNOT BE ESTABLISHED WITHOUT CAREFUL CONSULTATIONS. WHILE IT HAS ESTABLISHED SUCH A CONSULTATIVE PROCESS WITH THE GOVERNMENTS OF MOST OTHER INDUSTRIAL CONSUMER PRODUCER COUNTRIES, IT HAS NOT DONE SO WITH ITS MAJOR CUSTOMER, THE US. PRESIDENT PEREZ AND MINISTER HERNANDEZ, THEREFORE, VIEW THIS INITIAL MEETING AS AN INDISPENSABLE STEP IN ESTABLISHING SUCH EXCHANGES. THEY DO NOT SEE IT, OR ANY SINGLE MEETING, AS A SELF-CONTAINED, DEFINITIVE AND FINAL EXCHANGE; RATHER THEY VIEW IT AS THE INITIATION OF A KIND OF CONTINUING RELATIONSHIP, WHICH WILL BE MANIFESTED BY SUCH PERIODIC HIGH-LEVEL MEETINGS AS MAY BE APPROPRIATE. THE DELAY IN SETTING UP THE MARCH 6 MEETING WAS VIEWED SERIOUSLY HERE, RAISING DOUBTS AND SUSPICIONS IN THE GOV'S MIND AS TO US INTEREST AND PRUPOSE WITH REGARD TO ENERGY AND VENEZUELA. THAT IS WHY THEY ARE NOW EAGER TO BEGIN. PRESIDENT PEREZ HAS PUBLICLY ANNOUNCED THE MEETING HERE AND DESCRIBED IT AS AN EXAMPLE OF THE HEALTH OF US-VENEZUELAN RELATIONS AND THE WAY NATIONAL CONCERNS MUST BE HANDLED.

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4. WE ARE REPORTING IN SEPTTEL THE SPECIFIC AGENDA ITEMS HERNANDEZ WISHES TO TAKE UP. BASICALLY, HOWEVER, WHAT HE WANTS TO DO IS TO HEAR HOW THE US PROJECTS PETROLEUM PRODUCTION-CONSUMPTION PATTERNS AND THE DOMESTIC MARKET SITUATION, TO EXPLAIN HOW VENEZUELA VIEWS ITS FUTERE AND WHAT PLANS IT HAS, AND TO IDENTIFY THEREGY PROBLEM AND OPPORTUNITY AREAS AND WAYS THESE MIGHT BE MANAGED. WHILE THE GOV IS ALSO INTERESTED IN TECHNOLOGY COOPERATION, THIER MARKETING SITUATION ANDPROSPECTS ARE NOW OF SUCH CRITICAL IMPORTANCE IN THEIR FISCAL ECONOMIC SITUATION (WE ARE ALSO REPORTING ON THIS IN SEPTTEL) THAT THE LATTER PREDOMINATES. THE OPPORTUNITY TO INITIATE DISCUSSION OF COOPERATION IN THIS AREA WILL, HOWEVER, BE PRESENT.

5. THE US PERSPECTIVE. IN OUR VIEW, THE US HAS JUST AS MUCH TO GAIN FROM THIS MEETING AND FROM SUBSEQUENT CONSULTATIONS. VENEZUELA IS, AFTER ALL, STILL IN THE OIL MAJOR LEAGUES: IT IS THE SOURCE OF ABOUT A MILLION BPD US IMPORTS OF OIL ANDPRODUCTS; IT IS A SECURE SOURCE OF SUPPLY CLOSE AT HAND; IT HAS LONG-STANDING TIES WITH THE US OIL INDUSTRY WHICH IT HAS CONTINUED TO MAINTAIN

EVEN AFTER NATIONALIZATION. IT HAS, IN THE ORINOCO TAR BELT, ONE OF THE WORLD'S LARGEST KNOWN RESERVES OF HYDROCARBON, ALBEIT IN NON-CONVENTIONAL HEAVY OIL, AND IT IS PROJECTING INVESTMENTS OF UP TO THIRTY BILLION DOLLARS IN THE NEXT DECADE IN THE OIL INDUSTRY ALONE. IT IS THE ONLY PRACTICING DEMOCRACY IN OPEC, AND WHILE AN ADVOCATE OF HIGHER PRICES IT IS MODERATE IN THIS CONTEXT. MINISTER HERNANDEZ IS AN INTELLIGENT, RESPECTED OFFICIAL, WITH LONG EXPERIENCE IN WORLD ENERGY PROBLEMS. AS PRESIDENT OF THE OPEC CONFERENCE HE WILL PLAY AN EVEN GREATER ROLE THAN NORMAL IN OPEC AND PRICE ISSUES OVER THE NEXT SEVERAL MONTHS.

6. IN SHORT, THERE ARE MAJOR SUBSTANTIVE REASONS TO
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MAINTAIN A CLOSE AND CONSTRUCTIVE "OIL RELATIONSHIP" WITH VENEZUELA. IN TERMS OF THIS PARTICULAR MARCH 6 MEETING, WE VIEW THE FOLLOWING AS WHAT WE WANT TO GET OUT OF IT:

(A) OBTAIN A BETTER UNDERSTANDING OF, AND POSSIBLY INFLUENCE, THE THINKING OF AN IMPORTANT FIGURE IN OPEC PRICE AND OTHER DISCUSSIONS.

(B) PUBLICLY REAFFIRM, BY THE FACT OF THE MEETING ITSELF AND FOR THE FIRST TIME SINCE NATIONALIZATION, CONTINUING US INTEREST IN VENEZUELA AS A SECURE SOURCE OF OIL IMPORTS.

(C) DEMONSTRATE OUR LONGER-TERM INTEREST IN THE ENORMOUS RESOURCES EXISTING IN THE ORINOCO BELT, AND FURTHER THESE INTERESTS BY INITIATING COOPERATIVE RESEARCH EFFORTS IN HEAVY OIL.

(D) OFFSET THE EFFORTS OF OTHER INDUSTRIALIZED COUNTRIES, SUCH AS THE UK, FRANCE, GERMANY, JAPAN AND CANADA, TO woo VENEZUELA IN ORDER TO BENEFIT FROM THE COMMERCIAL SALES OPPORTUNITIES WHICH WILL RESULT FROM MAJOR FUTURE INVESTMENTS.

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